



OHIO AUDITOR OF STATE  
**KEITH FABER**





**VILLAGE OF SPENCERVILLE  
ALLEN COUNTY  
DECEMBER 31, 2020 AND 2019**

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# OHIO AUDITOR OF STATE KEITH FABER



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## **Report on the Financial Statements, Internal Control, and Compliance**

Village of Spencerville  
Allen County  
116 S. Broadway Street  
Spencerville, Ohio 45887

To the Members of Council:

We have selectively tested certain accounts, financial records, reports and other documentation of the Village of Spencerville, Allen County, (the Village), as of and for the years ended December 31, 2020 and 2019. These procedures were designed to satisfy the audit requirements of Ohio Rev. Code § 117.11, and Ohio Admin. Code 117-4-02. Our engagement was not designed as a basis to opine on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinions on these matters.

### ***Internal Control Over Financial Reporting***

Certain of the aforementioned tests relate to internal control over financial reporting. The results of those tests may allow us to identify internal control deficiencies. An internal control deficiency exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements, whether caused by error or fraud.

Our internal control tests were not designed to identify all internal control deficiencies that might exist. Therefore, unidentified weaknesses may exist. However, we consider findings 2020-001, 2020-002, 2020-004, 2020-007, and 2020-021 through 2020-030 reported in the Schedule of Findings to be internal control deficiencies management and those charged with governance should address.

### ***Compliance and Other Matters***

We also tested compliance with certain provisions of laws, regulations, contracts, and grant agreements, applicable to the Village, noncompliance with which could directly and materially affect the determination of financial statement amounts. The results of our tests disclosed instances of noncompliance we believe could directly and materially affect the determination of financial statement amounts that we reported in the Schedule of Findings as items 2020-001 through 2020-020, 2020-029, 2020-031, and 2020-032.

### ***Village's Response to Findings***

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber  
Auditor of State  
Columbus, Ohio

October 6, 2022

**Village of Spencerville, Ohio**  
*Allen County*  
*Combined Statement of Receipts, Disbursements*  
*and Changes in Fund Balances (Regulatory Cash Basis)*  
*All Governmental Fund Types*  
*For the Year Ended December 31, 2020*

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$61,711	\$11,765		\$73,476
Municipal Income Tax	427,040	213,584		640,624
Intergovernmental	64,957	326,450		391,407
Charges for Services	992			992
Fines, Licenses and Permits	20,611			20,611
Earnings on Investments	185	87		272
Miscellaneous	34,517	20,084		54,601
<i>Total Cash Receipts</i>	<u>610,013</u>	<u>571,970</u>		<u>1,181,983</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	63,774	424,683		488,457
Public Health Services	5,130			5,130
Leisure Time Activities	7,075			7,075
Transportation		108,231		108,231
General Government	166,398	6,590		172,988
Capital Outlay		3,100	\$95,151	98,251
Debt Service:				
Principal Retirement			3,051	3,051
<i>Total Cash Disbursements</i>	<u>242,377</u>	<u>542,604</u>	<u>98,202</u>	<u>883,183</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>367,636</u>	<u>29,366</u>	<u>(98,202)</u>	<u>298,800</u>
<b>Other Financing Receipts (Disbursements)</b>				
Sale of Capital Assets			8,250	8,250
Transfers In			169,727	169,727
Transfers Out	(169,727)			(169,727)
Other Financing Uses	(198)	(6,750)		(6,948)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(169,925)</u>	<u>(6,750)</u>	<u>177,977</u>	<u>1,302</u>
<i>Net Change in Fund Cash Balances</i>	197,711	22,616	79,775	300,102
<i>Fund Cash Balances, January 1</i>	<u>240,719</u>	<u>493,503</u>	<u>456,396</u>	<u>1,190,618</u>
<i>Fund Cash Balances, December 31</i>	<u>\$438,430</u>	<u>\$516,119</u>	<u>\$536,171</u>	<u>\$1,490,720</u>

*See accompanying notes to the basic financial statements.*

**Village of Spencerville, Ohio**  
*Allen County*  
*Combined Statement of Receipts, Disbursements*  
*and Changes in Fund Balances (Regulatory Cash Basis)*  
*Enterprise Funds*  
*For the Year Ended December 31, 2020*

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<b>Operating Cash Receipts</b>	
Charges for Services	\$1,292,298
Miscellaneous	16,679
	<hr/>
<i>Total Operating Cash Receipts</i>	<i>1,308,977</i>
	<hr/>
<b>Operating Cash Disbursements</b>	
Personal Services	216,414
Employee Fringe Benefits	92,263
Contractual Services	335,242
Supplies and Materials	138,800
Other	46,526
	<hr/>
<i>Total Operating Cash Disbursements</i>	<i>829,245</i>
	<hr/>
<i>Operating Income</i>	<i>479,732</i>
	<hr/>
<b>Non-Operating Receipts (Disbursements)</b>	
Capital Outlay	(377,185)
Principal Retirement	(324,672)
Interest and Other Fiscal Charges	(8,143)
Loans Issued	365,612
Intergovernmental	151,760
Miscellaneous Receipts	4,000
	<hr/>
<i>Total Non-Operating Receipts (Disbursements)</i>	<i>(188,628)</i>
	<hr/>
<i>Net Change in Fund Cash Balances</i>	<i>291,104</i>
	<hr/>
<i>Fund Cash Balances, January 1</i>	<i>1,267,790</i>
	<hr/>
<i>Fund Cash Balances, December 31</i>	<i>\$1,558,894</i>
	<hr/> <hr/>

*See accompanying notes to the basic financial statements.*



**Village of Spencerville**  
*Allen County*  
*Combined Statement of Additions, Deductions*  
*and Changes in Fund Balances (Regulatory Cash Basis)*  
*All Fiduciary Fund Types*  
*For the Year Ended December 31, 2020*

	Fiduciary Fund Type
	Custodial
	Mayor's Court
<b>Additions</b>	
Fines, Licenses and Permits for Distribution	921
<i>Total Additions</i>	921
 <i>Net Change in Fund Balances</i>	 921
 <i>Fund Cash Balances, January 1</i>	 
 <i>Fund Cash Balances, December 31</i>	 \$921

*See accompanying notes to the basic financial statements.*

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**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2020*

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**Note 1 – Reporting Entity**

The Village of Spencerville (the Village), Allen County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides various services including a mayor's court, police protection, recreation, street maintenance and repair, water and sewer utilities, and general administrative services. The Village contracts with the Spencerville Invincible Fire Department for fire and Spencerville EMS for emergency medical services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Presentation***

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary fund types and a combined statement of additions, deductions and changes in fund balances (regulatory cash basis) all fiduciary fund types which are all organized on a fund type basis.

***Fund Accounting***

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

***General Fund*** The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

***Special Revenue Funds*** These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

***Street Construction, Maintenance and Repair*** - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village street. This fund receives 92.5% of the above tax money.

***Income Tax Fund*** - This fund receives local income tax which is collected by the Income Tax Administrator. The rate for 2020 was 1.5%. Net collections are then disbursed to other funds per ordinances.

***Coronavirus Relief Fund*** - This fund accounts for grant monies restricted to help minimize the economic impact of the COVID-19 pandemic on the Village.

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2020*

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**Capital Project Funds** These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village has one capital projects fund that receives a share of the local income tax.

**Enterprise Funds** These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

**Water Operating Fund** - This fund receives cash receipts from water sales to Village residents. Water system operating cash disbursements are made from this fund.

**Sewer Operating Fund** - This fund receives cash receipts from sewer operations within the Village. Sewer system operating cash disbursements are made from this fund.

**Fiduciary Funds** Fiduciary funds include private purpose trust funds, investment trust funds, and custodial funds. Trust funds account for assets held under a trust agreement meeting certain criteria.

Custodial funds are purely custodial in nature and are used to report fiduciary activity that is not required to be reported in a trust fund. The Village's custodial fund accounts for the Mayor's Court activity.

For regulatory purposes, certain own source revenues are permitted to flow through clearing funds presented as custodial funds. The amounts distributed to the other funds of the entity are identified on the combined statement of additions, deductions and changes in fund balances (regulatory cash basis) all fiduciary fund types. Also, for regulatory purposes, certain deposits and clearing funds are permitted to be presented as custodial funds.

***Basis of Accounting***

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

***Budgetary Process***

The Ohio Revised Code requires that each fund (except certain custodial funds) be budgeted annually.

**Appropriations** Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2020*

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**Estimated Resources** Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must approve estimated resources.

**Encumbrances** The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2020 budgetary activity appears in Note 4.

**Deposits**

The Village only has depository bank accounts.

**Capital Assets**

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**Nonspendable** The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**Restricted** Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**Committed** Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**Assigned** Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*.

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2020*

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**Note 3 – Compliance**

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Police Enforcement fund, Police Drug Enforcement fund and the Garbage fund by \$11,812, \$15,800, and \$1,398, respectively.

In addition appropriations exceeded estimated resources in 2020 in the Street Construction, Maintenance and Repair special revenue fund, Swimming Pool fund, and Garbage fund, in the amount \$145,464, \$6,518 and \$101,431, respectively.

Also contrary to Ohio law, at December 31, 2020, the Swimming Pool enterprise fund had a deficit cash balance, in the amount of \$25,651.

**Note 4 – Budgetary Activity**

Budgetary activity for the year ending December 31, 2020 follows:

2020 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$467,399	\$610,013	\$142,614
Special Revenue	1,399,544	571,970	(827,574)
Capital Projects	759,880	177,977	(581,903)
Enterprise	1,469,489	1,830,349	360,860
Custodial	0	921	921
<b>Total</b>	<b>\$4,096,312</b>	<b>\$3,191,230</b>	<b>(\$905,082)</b>

2020 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$554,420	\$412,302	\$142,118
Special Revenue	1,235,755	549,354	686,401
Capital Projects	594,750	98,202	496,548
Enterprise	1,514,950	1,539,245	(24,295)
Custodial	0	0	0
<b>Total</b>	<b>\$3,899,875</b>	<b>\$2,599,103</b>	<b>\$1,300,772</b>

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2020*

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**Note 5 – Deposits**

To improve cash management, cash received by the Village is pooled. Monies for all funds are maintained in this pool. The Ohio Revised Code prescribes allowable deposits. A summary of the Village’s deposit accounts are as follows:

	2020
<b><i>Cash Management Pool:</i></b>	
Demand deposits	\$2,850,435
Other time deposits (savings and NOW accounts)	200,100
Total Deposits	\$3,050,535

***Deposits***

Deposits are insured by the Federal Deposit Insurance Corporation; or collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

**Note 6 – Taxes**

***Property Taxes***

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable non-business, owner occupancy, and homestead exemption credits and/or homestead and rollback deductions. The financial statements include these credits and/or deduction amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

The County is responsible for assessing property and for billing, collecting, and distributing all property taxes on behalf of the Village.

***Income Taxes***

The Village levies a municipal income tax of 1.5 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2020*

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**Note 7 – Risk Management**

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2018, the OPRM the property retention remained unchanged, however, the Plan assumed 100% of the first \$250,000 casualty treaty. Effective November 1, 2019, the OPRM's property retention increased from 30% to 33%, while the casualty treaty remains unchanged and still assumes 100% of the first \$250,000 casualty treaty. Effective November 1, 2020, the OPRM's property retention increased from 33% to 55%, while the casualty treaty remains unchanged and still assumes 100% of the first \$250,000 casualty treaty. OPRM had 771 members as of December 31, 2020. The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2020.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2020.

Assets	\$18,826,974
Liabilities	<u>(13,530,267)</u>
Members' Equity	<u>\$ 5,296,707</u>

You can read the complete audited financial statements for OPRM at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**Note 8 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Some Village employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement health care and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries, and the Village contributed an amount equaling 14 percent of participants' gross salaries.



**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2020*

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***Ohio Police and Fire Retirement System***

The Village's full-time Police Officers belong to the Ohio Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement health care and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 12.25 percent of their wages. The Village contributed to OP&F an amount equal to 19.5 percent of full-time police members' wages.

***Social Security***

Several Village employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries.

**Note 9 – Postemployment Benefits**

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement, and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 0 percent during calendar year 2020. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2020. OP&F contributes 0.5 percent to fund these benefits.

Beginning January 1, 2019, OP&F changed its retiree health care model to a stipend-based health care model. A stipend funded by OP&F was placed in individual Health Reimbursement Accounts that retirees use to be reimbursed for health care expenses.

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2020*

**Note 10 – Debt**

Debt outstanding at December 31, 2020, was as follows:

	Principal	Interest Rate
General Obligation Bonds		
Water	\$45,000	4.95%
Ohio Public Works Commission Loans		
Downtown Streetscape	14,481	0.00%
Water Tower	12,247	0.00%
Water Distribution System	17,750	0.00%
Ohio Water Development Authority Loan		
Water Tower Replacement	160,391	2.00%
WTP Construction	1,373,337	0.00%
Asset Management Plan	8,136	0.00%
New Well Construction	324,049	0.00%
Total	\$1,955,391	

**General Obligation Bonds - Water** - In 2006, the Village issued General Obligation Water System Improvement Bonds, Series 2006 in the amount of \$505,000 for 15 years. The bonds are payable in annual payments on May 1 through 2021 at a rate of 3.95% - 4.95%. The bonds are secured by water rates.

**OPWC Downtown Streetscape Loan** - In 2010, the Village obtained a \$29,850 loan for 20 years for the Downtown Streetscape beautification project. Debt service payments will be made in semiannual installments of \$746 on January 31 and July 1 with final payment January 2030 at a rate of 0%.

**OPWC Water Tower Loan** - Planning: In 2007, the Village obtained a loan in the amount of \$34,990 for 20 years for planning of the water tower replacement project. The loan is payable in semiannual payments of \$874 on January 31 and July 1 through January 2027 at a rate of 0%. The loan is secured by water rates.

**OPWC Water Distribution System Loan** - In 2004, the Village obtained a loan in the amount of \$100,000 for 20 years for water system distribution improvements. The loan is payable in semiannual payments of \$2,500 on January 31 and July 1 through 2024 at a rate of 0%. The loan is secured by water and sewer rates.

**OWDA Water Tower Replacement Loan** - In 2007, the Village obtained a loan in the amount of \$405,108 for 20 years for the replacement of a water tower. The loan is payable in semiannual payments of \$12,338 on January 1 and July 1 through 2027 at a rate of 2%. The loan is secured by water rates.

**OWDA WTP Construction Loan** - In 2012, the Village obtained a \$1,791,308 loan for 30 years for the construction of a new water treatment plant. Semiannual payments of \$29,855 are due on January 1 and July 1 with final payment July 1, 2043 at a rate of 0%. The loan is secured by water and sewer rates.

**OWDA Asset Management Plan** - In 2018, the Village obtained a loan in the amount of \$10,170 for 5 years for developing an asset management plan for the water system. The loan is payable in semiannual payments of \$1,017 on January 1 and July 1 through 2024 at a rate of 0%. The loan is secured by water rates.

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2020*

**OWDA New Well Construction** - In 2019, the Village obtained a loan with OWDA for the construction of a new well. The project was not complete as of December 31, 2020; therefore, no amortization schedule is available. The loan is secured by water rates.

**Leases**

The Village leases a 2019 International HV507 Dump/Plow Truck. The Village disbursed \$21,198 to pay lease costs for the year ended December 31, 2020.

**Amortization**

Amortization of the above debt, including interest, is scheduled as follows:

Year Ending December 31:	Truck Lease	OWDA Loan	General Obligation Bonds	OPWC Loans
2021	\$21,198	\$86,420	\$47,227	\$8,242
2022	21,198	86,420		8,242
2023	21,198	86,420		8,242
2024		86,420		5,741
2025		84,385		3,242
2026-2030		335,563		9,342
2031-2035		298,552		
2036-2040		298,552		
2041-2043		179,132		
Total	<u>\$63,594</u>	<u>\$1,541,864</u>	<u>\$47,227</u>	<u>\$43,051</u>

**Note 11 – COVID-19**

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the Village. The Village’s investment portfolio fluctuates with market conditions, and due to market volatility, the amount of gains or losses that will be realized in subsequent periods, if any, cannot be determined. In addition, the impact on the Village’s future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated.

During 2020, the Village received \$176,225 as an on-behalf of grant from another government. These amounts are recorded in the Coronavirus Relief Special Revenue Fund

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**Village of Spencerville, Ohio**  
*Allen County*  
*Combined Statement of Receipts, Disbursements*  
*and Changes in Fund Balances (Regulatory Cash Basis)*  
*All Governmental Fund Types*  
*For the Year Ended December 31, 2019*

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$61,883	\$12,341		\$74,224
Municipal Income Tax	465,990	233,064		699,054
Intergovernmental	58,910	129,640	\$97,704	286,254
Charges for Services	168	733		901
Fines, Licenses and Permits	17,979			17,979
Earnings on Investments	171	95		266
Miscellaneous	4,721	7,425	6,458	18,604
<i>Total Cash Receipts</i>	<u>609,822</u>	<u>383,298</u>	<u>104,162</u>	<u>1,097,282</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	239,143	131,886		371,029
Leisure Time Activities	12,596			12,596
Transportation		134,558		134,558
General Government	175,446	8,293		183,739
Capital Outlay			103,832	103,832
Debt Service:				
Principal Retirement		2,240		2,240
<i>Total Cash Disbursements</i>	<u>427,185</u>	<u>276,977</u>	<u>103,832</u>	<u>807,994</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>182,637</u>	<u>106,321</u>	<u>330</u>	<u>289,288</u>
<b>Other Financing Receipts (Disbursements)</b>				
Transfers In			184,542	184,542
Transfers Out	(194,542)			(194,542)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(194,542)</u>		<u>184,542</u>	<u>(10,000)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(11,905)</u>	<u>106,321</u>	<u>184,872</u>	<u>279,288</u>
<i>Fund Cash Balances, January 1 (Restated)</i>	<u>252,624</u>	<u>387,182</u>	<u>271,524</u>	<u>911,330</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		493,503	456,396	949,899
Assigned	62,021			62,021
Unassigned (Deficit)	178,698			178,698
<i>Fund Cash Balances, December 31</i>	<u>\$240,719</u>	<u>\$493,503</u>	<u>\$456,396</u>	<u>\$1,190,618</u>

*See accompanying notes to the basic financial statements.*

**Village of Spencerville, Ohio**  
*Allen County*  
*Combined Statement of Receipts, Disbursements*  
*and Changes in Fund Balances (Regulatory Cash Basis)*  
*All Proprietary and Fiduciary Fund Types*  
*For the Year Ended December 31, 2019*

	Proprietary Fund Types	Fiduciary Fund Types	Totals
	Enterprise	Agency	(Memorandum Only)
<b>Operating Cash Receipts</b>			
Charges for Services	\$1,257,728		\$1,257,728
Fines, Licenses and Permits		\$1,888	1,888
Contributions and Donations	1,000		1,000
Miscellaneous	9,033		9,033
<i>Total Operating Cash Receipts</i>	<u>1,267,761</u>	<u>1,888</u>	<u>1,269,649</u>
<b>Operating Cash Disbursements</b>			
Personal Services	231,251		231,251
Employee Fringe Benefits	63,127		63,127
Contractual Services	377,363		377,363
Supplies and Materials	142,836		142,836
Other	8,555	1,888	10,443
<i>Total Operating Cash Disbursements</i>	<u>823,132</u>	<u>\$1,888</u>	<u>825,020</u>
<i>Operating Income</i>	<u>444,629</u>		<u>444,629</u>
<b>Non-Operating Receipts (Disbursements)</b>			
Intergovernmental	85,308		85,308
Loans Issued	211,686		211,686
Capital Outlay	(399,308)		(399,308)
Principal Retirement	(225,360)		(225,360)
Interest and Other Fiscal Charges	(9,138)		(9,138)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(336,812)</u>		<u>(336,812)</u>
<i>Income before Transfers</i>	<u>107,817</u>		<u>107,817</u>
Transfers In	<u>10,000</u>		<u>10,000</u>
<i>Net Change in Fund Cash Balances</i>	<u>117,817</u>		<u>117,817</u>
<i>Fund Cash Balances, January 1</i>	<u>1,149,973</u>		<u>1,149,973</u>
<i>Fund Cash Balances, December 31</i>	<u>\$1,267,790</u>		<u>\$1,267,790</u>

*See accompanying notes to the basic financial statements.*

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 1 – Reporting Entity**

The Village of Spencerville (the Village), Allen County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides various services including a mayor's court, police protection, recreation, street maintenance and repair, water and sewer utilities, and general administrative services. The Village contracts with the Spencerville Invincible Fire Department for fire and Spencerville EMS for emergency medical services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Presentation***

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

***Fund Accounting***

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

***General Fund*** The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

***Special Revenue Funds*** These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

***Street Construction, Maintenance and Repair*** - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets. This fund receives 92.5% of the above tax money.

***Income Tax Fund*** - This fund receives local income tax which is collected by the Income Tax Administrator. The rate for 2019 was 1.5%. Net collections are then disbursed to other funds per ordinances.

***Police Enforcement Fund*** - This fund receives local income tax restricted for police operations.

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Capital Project Funds** These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village has one capital projects fund that receives a share of the local income tax.

**Enterprise Funds** These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

**Water Operating Fund** - This fund receives cash receipts from water sales to Village residents. Water system operating cash disbursements are made from this fund.

**Sewer Operating Fund** - This fund receives cash receipts from sewer operations within the Village. Sewer system operating cash disbursements are made from this fund.

**Fiduciary Funds** Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to report fiduciary activity that is not required to be reported in a trust fund. The Village's agency fund accounts for the financial activity of the Village's Mayor's Court.

***Basis of Accounting***

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

***Budgetary Process***

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

**Appropriations** Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

**Estimated Resources** Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must approve estimated resources.



**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Encumbrances** The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2019 budgetary activity appears in Note 4.

**Deposits**

The Village only has depository bank accounts.

**Capital Assets**

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**Nonspendable** The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**Restricted** Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**Committed** Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**Assigned** Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**Note 3 – Compliance**

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General fund, Police Drug Enforcement fund and Swimming Pool and Garbage enterprise funds by \$120,427, \$4,168, \$1,812, and \$21,990, respectively.

In addition appropriations exceeded estimated resources in 2019 in the Street Construction, Maintenance and Repair, and Police Enforcement special revenue funds, the Capital Projects capital projects fund, and the Swimming Pool funds in the amount \$16,789, \$85,975, \$28,114, and \$34,920, respectively.

Also contrary to Ohio law, at December 31, 2019, the Swimming Pool enterprise fund had cash deficit balance, in the amount of \$24,197.

**Note 4 – Budgetary Activity**

Budgetary activity for the year ending December 31, 2019 follows:

2019 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$477,442	\$609,822	\$132,380
Special Revenue	955,081	383,298	(571,783)
Capital Projects	759,880	288,704	(471,176)
Enterprise	1,595,181	1,564,755	(30,426)
Fiduciary	0	1,888	1,888
Total	\$3,787,584	\$2,848,467	(\$939,117)

2019 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$501,300	\$621,727	(\$120,427)
Special Revenue	1,066,999	276,977	790,022
Capital Projects	795,100	103,832	691,268
Enterprise	1,434,185	1,456,938	(22,753)
Fiduciary	0	1,888	(1,888)
Total	\$3,797,584	\$2,461,362	\$1,336,222

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 5 – Deposits**

The Village maintains a deposits pool all funds use. The Ohio Revised Code prescribes allowable deposits. The carrying amount of deposits at December 31 was as follows:

	2019
Demand deposits	\$2,258,328
Other time deposits (savings and NOW accounts)	200,080
Total deposits	<u>\$2,458,408</u>

***Deposits***

Deposits are insured by collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

**Note 6 – Taxes**

***Property Taxes***

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable non-business, owner occupancy, and homestead exemption credits and/or homestead and rollback deductions. The financial statements include these credits and/or deduction amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

The County is responsible for assessing property and for billing, collecting, and distributing all property taxes on behalf of the Village.

***Income Taxes***

The Village levies a municipal income tax of 1.5 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**Note 7 – Risk Management**

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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management program and other administrative services to Ohio governments (“Members”). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2018, the OPRM the property retention remained unchanged, however, the Plan assumed 100% of the first \$250,000 casualty treaty. Effective November 1, 2019, the OPRM’s property retention increased from 30% to 33%, while the casualty treaty remains unchanged and still assumes 100% of the first \$250,000 casualty treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 776 members as of December 31, 2019.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2019.

Assets	\$15,920,504
Liabilities	<u>(11,329,011)</u>
Members’ Equity	<u>\$ 4,591,493</u>

You can read the complete audited financial statements for OPRM at the Plan’s website, [www.ohioplan.org](http://www.ohioplan.org).

**Note 8 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Some Village employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include postretirement health care and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries, and the Village contributed an amount equaling 14 percent of participants’ gross salaries.

***Ohio Police and Fire Retirement System***

The Village’s full-time Police Officers belong to the Ohio Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include postretirement health care and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 12.25 percent of their wages. The Village contributed to OP&F an amount equal to 19.5 percent of full-time police members’ wages.

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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***Social Security***

Several Village employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries.

**Note 9 – Postemployment Benefits**

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement, and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 0 percent during calendar year 2019. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2019. OP&F contributes 0.5 percent to fund these benefits.

Beginning January 1, 2019, OP&F changed its retiree health care model to a stipend-based health care model. A stipend funded by OP&F was placed in individual Health Reimbursement Accounts that retirees use to be reimbursed for health care expenses.

**Note 10 – Debt**

Debt outstanding at December 31, 2019, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Bonds		
Water	\$90,000	4.95%
Ohio Public Works Commission Loans		
Downtown Streetscape	14,925	0.00%
Water Tower	12,247	0.00%
Water Distribution System	20,000	0.00%
Ohio Water Development Authority Loan		
Water Tower Replacement	171,064	2.00%
WTP Construction	1,433,046	0.00%
Asset Management Plan	10,170	0.00%
New Well Construction	116,343	0.00%
Total	<u>\$1,867,795</u>	

***General Obligation Bonds - Water*** - In 2006, the Village issued General Obligation Water System Improvement Bonds, Series 2006 in the amount of \$505,000 for 15 years. The bonds are payable in annual payments on May 1 through 2021 at a rate of 3.95% - 4.95%. The bonds are secured by water rates.

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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***OPWC Downtown Streetscape Loan*** - In 2010, the Village obtained a \$29,850 loan for 20 years for the Downtown Streetscape beautification project. Debt service payments will be made in semiannual installments of \$746 on January 31 and July 1 with final payment January 2030 at a rate of 0%.

***OPWC Water Tower Loan - Planning***: In 2007, the Village obtained a loan in the amount of \$34,990 for 20 years for planning of the water tower replacement project. The loan is payable in semiannual payments of \$874 on January 31 and July 1 through January 2027 at a rate of 0%. The loan is secured by water rates.

***OPWC Water Distribution System Loan*** - In 2004, the Village obtained a loan in the amount of \$100,000 for 20 years for water system distribution improvements. The loan is payable in semiannual payments of \$2,500 on January 31 and July 1 through 2024 at a rate of 0%. The loan is secured by water and sewer rates.

***OWDA Water Tower Replacement Loan*** - In 2007, the Village obtained a loan in the amount of \$405,108 for 20 years for the replacement of a water tower. The loan is payable in semiannual payments of \$12,338 on January 1 and July 1 through 2027 at a rate of 2%. The loan is secured by water rates.

***OWDA WTP Construction Loan*** - In 2012, the Village obtained a \$1,791,308 loan for 30 years for the construction of a new water treatment plant. Semiannual payments of \$29,855 are due on January 1 and July 1 with final payment July 1, 2043 at a rate of 0%. The loan is secured by water and sewer rates.

***OWDA Asset Management Plan*** - In 2018, the Village obtained a loan in the amount of \$10,170 for 5 years for developing an asset management plan for the water system. The loan is payable in semiannual payments of \$1,017 on January 1 and July 1 through 2024 at a rate of 0%. The loan is secured by water rates.

***OWDA New Well Construction*** - In 2019, the Village obtained a loan with OWDA for the construction of a new well. The project was not complete as of December 31, 2019; therefore, no amortization schedule is available. The loan is secured by water rates.

***Leases***

The Village leases a 2019 International HV507 Dump/Plow Truck. The Village disbursed \$21,198 to pay lease costs for the year ended December 31, 2019.

***Amortization***

Amortization of the above debt, including interest, is scheduled as follows:

**Village of Spencerville, Ohio**  
*Allen County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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Year Ending December 31:	General Obligation			
	Bonds	OPWC Loans	OWDA Loans	Truck Lease
2020	\$49,433	\$4,121	\$86,420	\$21,198
2021	47,227	8,242	86,420	21,198
2022	0	8,242	86,420	21,198
2023	0	8,241	86,420	21,198
2024	0	5,742	86,420	
2025-2029	0	11,837	360,241	
2030-2034	0	747	298,551	
2035-2039	0	0	298,551	
2040-2043	0	0	238,841	
Total	<u>\$96,660</u>	<u>\$47,172</u>	<u>\$1,628,284</u>	<u>\$84,792</u>

**Note 11 – Restatement**

In 2019, the fund structure was adjusted to include a special revenue fund, the Police Drug Enforcement fund, that previously had not been reported. The restatement effected Special Revenue fund type beginning balance from \$377,267 to \$387,182.

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**VILLAGE OF SPENCERVILLE  
ALLEN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2020 AND 2019**

**FINDING NUMBER 2020-001**

**Internal Control Deficiency / Noncompliance Citation / Finding for Recovery – Overpayment of Payroll Wages**

**Ohio Rev. Code § 731.13** states, in part, the legislative authority of a Village shall fix the compensation of all officers, clerks, and employees of the Village except as otherwise provided by law. The legislative authority shall, in the case of elective officers, fix their compensation for the ensuing term of office at a meeting held not later than five days prior to the last day fixed by law for filing as a candidate for such office. The compensation so fixed shall not be increased or diminished during the term for which any officer is elected or appointed. This section does not prohibit the payment of any increased costs of continuing to provide the identical benefits provided to an officer at the commencement of his term of office.

Due to the lack of procedures in place to properly calculate wages and not having monitoring procedures in place for expenditures made, the Village incorrectly paid two employees during the audit period.

The Council approved Ordinance 16-22 stating that Lori Och, Clerk/Treasurer, will be compensated at a rate of \$11,400 per year for Clerk/Treasurer position and \$11,500 per year for Income Tax Administrator position for a total of \$22,900 annually; Ordinance 19-14 effective March 23, 2019 stating \$10,771 per year for Income Tax Administrator; Ordinance 20-11 effective April 1, 2020 stating \$11,440 per year for Fiscal Officer; and Ordinance 20-12 effective May 1, 2020 stating \$11,750 per year for Income Tax Administrator. Ms. Och was paid \$24,292 in 2019 and \$24,630 in 2020. Ms. Och's calculated pay per the above ordinances should have been \$23,220 in 2019 and \$22,840 in 2020, resulting in an overpayment of \$1,072 in 2019 and \$1,790 in 2020.

The Council approved Ordinance 18-11 for the period beginning May 19, 2018 stating that Sean Chapman, Village Administrator, will be compensated at \$62,024 annually and Ordinance 19-14 for the period beginning March 23, 2019 stating that Sean Chapman, Village Administrator, will be compensated at \$63,265. Mr. Chapman was paid \$65,717 in 2019. Mr. Chapman's calculated pay per the above ordinances should have been \$65,364 in 2019, resulting in an overpayment of \$353.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against the Fiscal Officer, Lori Och, and her bonding company, Ohio Risk Plan Management Inc., in the amount of \$2,862, and in favor of the Village of Spencerville's General Fund in the amount of \$712 and the Village's Income Tax Fund in the amount of \$2,150.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Village Administrator, Sean Chapman, in the amount of \$353, and in favor of the Village of Spencerville's General Fund \$53, Street Fund \$88, Water Fund \$106 and Sewer Fund \$106.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which an illegal expenditure is discovered, is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op Att'y Gen. No. 80-074; Ohio Rev. Code § 9.39; *State ex rel. Village of Linndale v. Masten*, 18 Ohio St.3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

Fiscal Officer, Lori Och, signed the warrants resulting in the \$353 of improper payments to Sean Chapman, Village Administrator. Accordingly, Fiscal Officer, Lori Och, will be jointly and severally liable in favor of the General Fund \$53, Street Fund \$88, Water Fund \$106 and Sewer Fund \$106 to the extent that recovery of these amounts are not obtained from the Village Administrator, Sean Chapman. Fiscal Officer, Lori Och's bonding company is Ohio Risk Plan Management Inc.

**FINDING NUMBER 2020-001**  
**(Continued)**

The Village should implement procedures and/or controls to help ensure that employee wages are properly calculated and paid per approved ordinances.

**Officials' Response:**

The Village resolved this issue in calendar year 2021. The language for all wage Ordinances will now reference salaried employee's wages as being "bi-weekly" and not "annual". This will eliminate the possibility of employees allegedly being overpaid if a wage increase were to be granted mid-year.

**FINDING NUMBER 2020-002**

**Internal Control Deficiency / Noncompliance Citation / Finding for Recovery - Late Fees**

**Ohio Rev. Code § 145.47(B)** states, in part, the head of each state department, institution, board, and commission, and the fiscal officer of each local authority subject to this chapter, shall transmit to the system for each contributor subsequent to the date of coverage an amount equal to the applicable per cent of each contributor's earnable salary at such intervals and in such form as the system shall require.

**Ohio Rev. Code § 742.32(A)** states, that the fiscal officer of each employer shall transmit monthly to the secretary of the board of trustees of the Ohio police and fire pension fund a report of employee deductions in such form as the board requires. The report shall show all deductions for the fund made pursuant to section 742.31 of the Revised Code and shall be accompanied by payments covering the total of such deductions. The report shall also include the name of each member for whom deductions were made and the portion of the payment attributed to that member. Separate payments shall be so transmitted for that portion of such deductions made from the salaries of members of the police department and for that portion of such deductions made from the salaries of members of the fire department. The report and payment are due the last day of the month following the last business day of the reporting period. **Ohio Rev. Code § 742.32(B)** states that a penalty determined under section 742.352 of the Revised Code shall be assessed if any of the following occur:

(1) The report is received by the board after the due date or is not in the form required by the board. (2) Payments to cover the total amount due from the salaries of all employees of the employer are received by the board after the due date.

The penalty shall be added to and collected on the next succeeding regular employer billing. If the penalty is not paid within sixty days after it is added to the regular employer billing, interest at a rate determined by the board may be charged on the total amount due and the amount of the penalty from the date the amount is due to the date of payment.

**Ohio Rev. Code § 5747.06(A)** states, in part, that except as provided in division (E)(3) of this section, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748 of the Revised Code with respect to the amount of such compensation included in the employee's adjusted gross income during the calendar year. The employer shall deduct and withhold the tax on the date that the employer directly, indirectly, or constructively pays the compensation to, or credits the compensation to the benefit of, the employee.

**FINDING NUMBER 2020-002**  
**(Continued)**

**Ohio Rev. Code § 5747.07(B)** states, in part, that except as provided in divisions (C) and (D) of this section and in division (A) of section 5747.072 of the Revised Code, every employer required to deduct and withhold any amount under section 5747.06 of the Revised Code shall file a return and shall pay the amount required by law. **Ohio Rev. Code § 5747.07(B)(4)**, states, in part, that except as required by divisions (B)(1), (2), and (3) of this section, an employer shall make the payment of un-deposited taxes for each calendar quarter during which they were required to be withheld no later than the last day of the month following the last day of March, June, September, and December each year. The employer shall file the return prescribed by the tax commissioner with the payment. **Ohio Rev. Code § 5747.07(B)(3)** states, in part, that if an employer's actual or required payments were more than two thousand dollars during the twelve-month period ending on the thirtieth day of June of the preceding calendar year, the employer shall make the payment of un-deposited taxes for each month during which they were required to be withheld no later than fifteen days following the last day of that month. The employer shall file the return prescribed by the tax commissioner with the payment.

**26 U.S.C. § 3403** states, in part, that the employer shall be liable for the payment of the tax required to be deducted and withheld under Title 26 of the Internal Revenue code Chapter 24.

Furthermore, a well-designed system of internal controls should contain procedures to ensure invoices are paid in a timely manner and the amount paid is appropriate for Village purposes.

Due to the lack of procedures in place to timely pay liabilities and for monitoring expenditures made, the Village paid penalties and interest totaling \$2,255 during 2020 and \$15,453 during 2019 for the late remittance of pension and payroll withholdings and contribution liabilities, the late payment of utility bills, the late payment of debt obligations, and late payment of various vendors invoices for goods and services.

Penalties, late fees and interest for failing to properly pay federal income taxes, retirement withholdings, and timely pay invoices are not considered a proper public purpose. Failure to properly remit withholdings and pay expenditures timely could result in additional late fees and improper expenditure of funds. The Village should implement proper procedures and controls to ensure the timely remittance of all tax and retirement withholding payments, and the timely payment of debt, utilities, and other obligations incurred by the Village.

*State ex rel. McClure v. Hagerman*, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically, the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only.

Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states, in part, the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Lori Och, Fiscal Officer, and her bonding company, Ohio Risk Management Plan Inc., in the amount of \$17,708, and in favor of the Village of Spencerville's General, Water, Sewer and Swimming Pool Funds, in the amounts of \$17,342, \$302, \$62, and \$2 respectively.

The Village should make timely payments to ensure penalties and interest for late payments are not incurred.

**FINDING NUMBER 2020-002  
(Continued)**

**Officials' Response:**

This has been corrected. Department heads and the Fiscal Officer monitor invoices that come in to see if late fees have been applied; if so, we address them immediately. In addition, if an invoice has a critical due date, Village Council has authorized the payment of those invoices immediately to avoid late fees. Lastly, many invoices are paid electronically, in an effort to avoid late charges as well.

**FINDING NUMBER 2020-003**

**Noncompliance Citation – Purpose of Executive Sessions**

**Ohio Rev. Code § 121.22(G)(8)(b)** states, in part, the motion and vote to hold that executive session shall state which one or more of the approved purposes listed in divisions (G)(1) to (G)(8) of this section are the purposes for which the executive session is to be held.

Council entered executive session during regular meetings held on August 5, 2019, August 19, 2019, September 3, 2019, September 16, 2019, October 7, 2019, January 20, 2020 and November 16, 2020 for which the purpose of the executive session was not given.

The improper use of executive session could result in an injunction being issued, in which case the Council could be required to correct its actions, and be responsible for paying various court costs, fines and attorney fees.

Council should review the Ohio Sunshine Laws, specifically focusing on the Ohio Open Meetings Act referenced in Ohio Rev. Code Section 121.22 to develop and implement procedures to follow when utilizing executive sessions. These resources are available at [www.ohioauditor.gov](http://www.ohioauditor.gov).

**Officials' Response:**

This has been corrected; the Village has always announced the reason for entering executive session; however, on occasion, it was accidentally omitted from the meeting minutes. The Fiscal Officer will ensure that the executive session purpose is clearly noted in the meeting minutes.

**FINDING NUMBER 2020-004**

**Internal Control Deficiency / Noncompliance Citation / Finding for Recovery - Mayor's Court - Collections and Monthly Report**

**Ohio Rev. Code § 733.40** provides that all fines, forfeitures, and costs in ordinance cases and all fees that are collected by the mayor, that in any manner come into the mayor's hands, or that are due to the mayor, and all money received by the mayor for the use of the municipal corporation shall be paid by the mayor into the treasury of the municipal corporation on the first Monday of each month. At the first regular meeting of the legislative authority each month, the mayor shall submit a full statement of all money received, from who and for what purposes received, and when paid into the treasury.

Sound accounting practices requires designing and operating a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for its public offices in certain categories. Furthermore, the Village should maintain an accounting system and accounting records sufficient to ensure the accountability over entity assets.

**FINDING NUMBER 2020-004**  
**(Continued)**

During 2020, the Village Mayor collected fines related to the Village's Mayors Court generated from traffic and code violations, however, the Mayor did not remit monies collected to the Village by the first Monday of each month. Also in 2020, collections were not deposited into the financial institution but rather were given to the Fiscal Officer and held in the office. We noted the Village's Mayor's Court Cashbook indicated total collections of \$1,176, however, deposit made June 15, 2021 for the year was \$1,026, resulting in funds collected and not deposited of \$150. Funds were also not deposited timely in 2019. Further, for 2019 and 2020, a full statement of all money received, the payer and for what purposes received, and when paid into the treasury was not provided monthly.

In accordance with the foregoing facts and circumstances, and, pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public money collected but unaccounted for, is hereby issued against Lori Och, Village Fiscal Officer, and her bonding company, Ohio Risk Management Plan Inc. and Heather Barber, Clerk of Courts, and her bonding company, Ohio Risk Management Plan Inc. and Phillip Briggs, Mayor, will be jointly and severally liable, in the amount of \$150 and in favor of the Village of Spencerville's Mayor's Court Fund.

Without consistently performing internal control procedures and periodically monitoring the reconciliation of receipts to deposits, management cannot be reasonably assured all monies collected are deposited. In addition, failure to properly deposit and remit monies collected by the Mayor's Court cashbook reduces the accountability over the Court receipts and disbursements, and increases the risk that errors, theft and fraud could occur and not be detected in a timely manner.

The Village should implement policies and procedures to ensure all monies collected for the Village's Mayor's Court are deposited. This should include, but not necessarily be limited to, a reconciliation of amounts received to amounts deposited and a periodic review of the receipt and deposit records to ensure amounts have been deposited. In addition, the Mayor should properly pay monies into the treasury when received and then subsequently distribute fines collected by Mayor's Court to the Village's General Fund by the first Monday of the following month and provide the required reports at that time.

**Officials' Response:**

This has been corrected. Mayor's court now performs monthly reconciliations to ensure monies are deposited and accounted for properly.

**FINDING NUMBER 2020-005**

**Noncompliance Citation – Ohio Pooled Collateral System – Sufficient Monitoring**

**Ohio Rev. Code § 135.182(M)**, states, in part, that the treasurer of state may adopt rules necessary for the implementation of this section and sections 135.18 and 135.181 of the Revised Code. **Ohio Admin. Code 113-40-01(A)(17)** states: "Operating policies" means the set of operational procedures, policies, and requirements for the use of Ohio Pooled Collateral System (OPCS), to be made available by the treasurer of state. All participation in OPCS and use of OPCS shall be subject to the operating policies, maintained at the sole discretion of the treasurer of state. These policies in part state PUs (Public Units or governments) are responsible for reviewing the reports posted on OPCS related to their deposits of public funds and for verifying the accuracy of the daily reports of their itemized deposits. PUs must report any discrepancies on their deposit accounts to their FIs (Financial Institutions). PUs shall inform their FIs of a significant change in the amount or activity of its deposits within a reasonable time before the change occurs. FIs may notify the Treasurer's Office if a PU repeatedly fails to inform them of a significant change in the amount or activity in deposits.

**FINDING NUMBER 2020-005  
(Continued)**

The Village has funds on deposit with two financial institutions, US Bank and Huntington National Bank. For the account with US Bank, the previous fiscal officer's name and email address was listed as the primary contact for the Village. As a result, the OPCS system indicated that the primary contact for the Village has been sent an invitation to log in thirty two times, however the Village has never logged in. It is the Village's responsibility to update contact information with the financial institution in order to receive the appropriate log in information to monitor the Village's accounts through the OPCS System.

The failure to monitor the system may result in the inadequate collateral for the Village's deposits.

To ensure public deposits are secured by either the Federal Deposit Insurance Corporation, surety company bonds, or pledged securities, the Village should update their contact information and then accept the invitation from OPCS to provide security for those public funds deposited or obtain evidence that the financial institutions met the requirements of Ohio Rev. Code § 135.181.

**Official's Response:**

This has been corrected. OPCS has been updated, along with Huntington Bank, to monitor the account and the US Bank account has been closed.

**FINDING NUMBER 2020-006**

**Noncompliance Citation – Public Records Retention and Policy**

**Ohio Rev. Code § 149.43(E)(2)** states, in part, that the public office shall distribute the public records policy adopted by the public office under this division to the employee of the public office who is the records custodian or records manager or otherwise has custody of the records of that office. The public office shall require that employee to acknowledge receipt of the copy of the public records policy.

**Ohio Rev. Code § 149.43(B)(2)** states, in part, that to facilitate broader access to public records, a public office or the person responsible for public records shall organize and maintain public records in a manner that they can be made available for inspection or copying in accordance with division (B) of this section. A public office also shall have available a copy of its current records retention schedule at a location readily available to the public.

Due to the deficiencies in internal controls over public records laws and monitoring, the Village did not have an acknowledgement of receipt of the public records policy by the records custodian or records manager or other who had custody of the records on file and did not have an approved records retention schedule on file as required. By not having an approved records retention schedule, this may result in requests for records that are not required and/or no longer maintained by the Village and could lead to records being disposed of in error or in noncompliance with Ohio Revised Code.

The Village should implement procedures to ensure that written evidence is maintained showing that the Public Records Policy was provided to the records custodian/manager and that a formal records retention policy is adopted.

**Official's Response:**

This has been corrected. The Village has had an approved and adopted Public Records Policy for years, however, we did not finalize our Records Retention Schedule until calendar year 2021; these were approved by legislation. In addition, the Records Committee meets in accordance with the requirements outlined in ORC.

**FINDING NUMBER 2020-007**

**Internal Control Deficiency / Noncompliance Citation - Police Drug Enforcement Fund**

**Ohio Rev. Code § 5705.09(F)** provides each subdivision must establish “a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose.”

Furthermore, **Ohio Rev. Code § 5705.12** requires the governing body to approve the establishment of these funds by ordinance or resolution and include in the resolution how monies derived are to be used.

The Village Police Department maintained a separate bank account for the donation of funds for which no fund was established and was not reported on the Village financial statements for 2019 and 2020. There was no ordinance or resolution approved establishing how the monies derived were to be used and internal control policies in relation to the receipt of the donations, use of the associated debit card, approval of the expenditures and other related matters. In addition, errors were noted in that one out of the twenty-three expenditures did not have proper documentation in 2019 and a refund in the amount of \$806 was deposited into the Police Fund bank account instead of properly being deposited in the Village's main checking account. There was no tracking of the expenditures of the donated funds being used for the purpose specified by the donator. In 2019, this resulted in an understatement of revenues of \$6,380, expenditures of \$4,168, beginning fund balance of \$9,915 and ending fund balance of \$12,127 to the Special Revenue Fund. In 2020, this resulted in an understatement of revenues of \$19,673, expenditures of \$15,800, beginning fund balance of \$12,127 and ending fund balance of \$16,000 to the Special Revenue Fund. These amounts were adjusted on the Village's financial statements.

Failure to establish a Village fund for the police department donations and a written internal control policy addressing the need for supporting documentation, use of the debit card and accounting of the funds could lead to the Village not using funds in a proper manner and possible findings for adjustment.

The Council should retroactively approve the establishment of a Police Donations Fund. In addition, the Police department should establish a written internal control policy over the use of the monies and should consider submitting to the Council for review and approval.

**Officials' Response:**

Policies and procedures have been drafted to correct this issue. Village Council will need to review these policies and procedures and adopt the appropriate legislation approving them. This issue will be addressed and corrected by the end of calendar year 2022.

**FINDING NUMBER 2020-008**

**Noncompliance Citation - Ohio Public Employees Retirement System Withholdings and Remittances**

**Ohio Rev. Code § 145.47(A)**, states, in part, that each public employee who is a contributor to the public employees retirement system shall contribute an amount, as determined by the public employees' retirement board, not to exceed ten percent from each employee's earnable salary. **Ohio Rev. Code § 145.47(B)**, states, in part, that the fiscal office of each local authority subject to this chapter, shall transmit to the system for each contributor subsequent to the date of coverage an amount equal to the applicable per cent of each contributor's earnable salary at such interval and in such form as the system shall require. **Ohio Rev. Code § 145.48(A)** states, in part, that each employer shall pay to the public employees' retirement system an amount that shall be a certain per cent of the earnable salary of all contributors to be known as the "employer contribution, not to exceed fourteen per cent of the earnable salaries of all contributors."

**FINDING NUMBER 2020-008  
(Continued)**

Due to the lack of monitoring procedures performed by management of the remittance of the withholdings and contributions made by the Fiscal Officer, employee withholdings and employer contributions were not properly or timely remitted to the Ohio Public Employees Retirement System (OPERS) in 2020 for six of the twelve months and 2019 for six of the twelve months. In addition, the amount remitted for 2019 did not agree to the withholdings and employer share calculated by UAN by 4%.

Failure of management to monitor the proper withholding and remitting of withholdings/ contributions could result in errors and/or irregularities occurring and remaining undetected and could subject the Village to penalties and interest charges. Also, see Finding 2020-002 regarding a finding for recovery for late filing of contributions.

The Village should implement procedures to monitor pension contributions and payroll withholding transactions to ensure that all OPERS amounts withheld and employer contributions are properly calculated and paid. This matter will be referred to the Ohio Public Employees Retirement System.

**Officials' Response:**

This has been corrected. With assistance from UAN, the form has been updated and corrected so this information can be filed electronically. In addition, proper training has been received on how to file manually in the event there are issues with the computer system. All reports are and have been submitted in a timely manner since calendar year 2021.

**FINDING NUMBER 2020-009**

**Noncompliance Citation – Issuance of 1099's**

**26 CFR § 1.6041-1(a)(1)(i)(A)**, states, in part, that except as otherwise provided in §§ 1.6041-3 and 1.6041-4, every person engaged in a trade or business shall make an information return for each calendar year with respect to payments it makes during the calendar year in the course of its trade or business to another person of fixed or determinable income described in paragraph (a)(1)(i) (A) or (B) of this section. For purposes of the regulations under this section, the person described in this paragraph (a)(1)(i) is a payor. Payments are to be reported for salaries, wages, commissions, fees, and other forms of compensation for services rendered aggregating \$600 or more.

The Village paid one independent contractor more than \$600 during 2019, but did not issue a 1099 as required by the above section of code. Failure to issue 1099's as required could result in not properly reporting income that should be taxed. This matter will be referred to the Internal Revenue Service.

The Village should implement procedures to monitor independent contractors that are compensated more than \$600 per calendar year and issue 1099's to provide for proper tax reporting.

**Official's Response:**

This has been corrected; the proper training has been received on how to setup UAN for those that are to be issued 1099's at the end of each calendar year.



**FINDING NUMBER 2020-010**

**Noncompliance Citation - Fire and EMS Contract Payments**

**Ordinance 13-15** states in part 25% of the net funds generated by the provisions of this ordinance shall be deposited in a police department fund and said fund shall be used exclusively for the operation of the Village police Department, including, but not limited to, the purchase of necessary equipment and services for the provision of police protection to the Village. The remaining 1.25% of the net funds collected under the provisions of this Ordinance shall be deposited sixty percent (60%) to the General Fund of which fourteen percent (14% of net revenue shall be paid quarterly to the Spencerville Fire Department for said contract with the Village and six percent (6%) of net revenue shall be paid quarterly to Spencerville EMS for said contract with Village and forty percent (40%) shall be deposited in the Capital Project Fund and shall be disbursed as appropriated by Village Council.

In review of the payments made to the Spencerville Invincible Fire Department and the Spencerville EMS we noted that payments during 2020 and 2019 were not properly calculated in accordance with Ordinance 13-15. The failure to make payments in accordance with the approved Ordinance could result in the overpayment or underpayment to those entities.

The Village should review Ordinance 13-15 and contracts with these entities to determine the proper amount to be paid and make timely payments in accordance with those documents.

**Officials' Response:**

This has been corrected. The LGS of the State Auditor's office setup the formula on how to figure and distribute payments to these two entities; this was completed during the LGS restructuring of the Village's finances.

**FINDING NUMBER 2020-011**

**Noncompliance Citation - Expenditures in Excess of Appropriations**

**Ohio Rev. Code § 5705.41(B)** prohibits a subdivision or taxing authority unit from making any expenditure of money unless it has been appropriated in accordance with the Ohio Revised Code.

Due to inadequate policies and procedures in approving and reviewing budget versus actual information, the Village had expenditures in excess of appropriations for various funds.

The Village had expenditures exceeding approved appropriations for both 2020 and 2019 at the fund level for the following funds:

Year / Fund	Appropriations	Expenditures	Deficit
2019 General Fund	\$ 501,300	\$ 621,727	\$ (120,427)
2019 Police Drug Enforcement Fund		4,168	(4,168)
2019 Swimming Pool Fund	35,285	37,097	(1,812)
2019 Garbage Fund	130,000	151,990	(21,990)
2020 Police Enforcement Fund	65,725	77,537	(11,812)
2020 Police Drug Enforcement Fund		15,800	(15,800)
2020 Garbage Fund	130,000	131,398	(1,398)

Failure to have adequate appropriations in place at the time expenditures are made could cause expenditures to exceed available resources, further resulting in deficit spending practices.

**FINDING NUMBER 2020-011  
(Continued)**

The Council should closely monitor expenditures and appropriations and make the necessary appropriation amendments, if possible, to reduce the likelihood of expenditures exceeding appropriations. Additionally, the Fiscal Officer should deny payment requests exceeding appropriations when appropriations are inadequate to cover the expenditures.

**Officials' Response:**

This has been corrected. The Fiscal Officer has received training on how to properly enter budget figures and how to report to the Allen County Auditor.

**FINDING NUMBER 2020-012**

**Noncompliance Citation - Mayor's Court - Distribution of Fines**

**Ohio Rev. Code § 2743.70 and 2949.091** require the court in which any person is convicted of or pleads guilty to any offense other than a traffic offense which is not a moving violation to impose and collect additional fines to be used for the state's reparations fund. The court may not waive the payment of this additional cost unless the court determines that the offender is indigent and waives the payment of all court costs imposed upon the indigent offender. All moneys collected pursuant to **Ohio Rev. Code § 2949.091** during a month shall be transmitted on or before the twentieth day of the following month by the clerk of the court to the treasurer of state and deposited by the treasurer of state to credit of the indigent defense support fund established under section 120.08 of the Revised Code. All moneys collected pursuant to **Ohio Rev. Code § 2743.70** shall be transmitted on the first business day of each month by the clerk of courts to the treasurer of state and deposited by the treasurer in the reparations fund. Further, the Village Council approved a fine/fee schedule.

The Mayor's Court Clerk did not properly distribute the amounts collected in a timely manner. The 2019 amounts collected were not distributed until December 2019 and the amount collected for 2020 were not distributed as of the time of the audit. In addition, two cases were improperly input in 2020, the fines/fees collected were for non-traffic offenses however were allocated as traffic offenses in error.

Failure to properly distribute the Mayor's Court cashbook receipts reduces the accountability over the Court receipts and disbursements, and increases the risk that errors, theft and fraud could occur and not be detected in a timely manner. The failure to properly input the offenses as traffic vs non-traffic results in the improper distribution of fines.

The Mayor's Court Clerk should maintain a cash book and document allocation of receipts and the Village should remit the State portion of Mayor's Court fines and fees collected to the State on or before the first business day of each month or twentieth day of the following month, as applicable and submit all reports as required timely. Additionally, the Clerk should assure that cases are properly entered and fines allocated correctly.

**Officials' Response:**

This has been corrected. The Mayor's court clerk figures the breakdown of funds and the Fiscal Officer disburses the funds appropriately.

### FINDING NUMBER 2020-013

#### Noncompliance Citation - Remittance of Federal Withholdings

**26 U.S.C. § 3402(a)(1)** states in part, that every employer, including the state and its political subdivisions making payments of any compensation to an employee who is a taxpayer, to deduct and withhold from such compensation for each payroll period a tax substantially equivalent to the tax reasonably estimated to be due under this chapter with respect to the amount of such compensation included in his adjusted gross income during the calendar year.

Due to the lack of monitoring procedures of the remittance of the withholdings made by the Fiscal Officer, the Form 941 quarterly reports and related federal withholdings were not properly filed or remitted as required by the IRS in a timely manner. As of December 31, 2020, the Village had not paid all of the federal withholdings as required. Failure to properly withhold and remit taxes could subject the Village to potential penalties and interest charges. Also, see Finding 2020-002 regarding a finding for recovery for late filing of federal withholdings.

Management should implement monitoring procedures to ensure that all federal amounts withheld are properly remitted and that the employer's share is properly calculated and paid. The required amounts and reports should be timely remitted and filed when completing the last payroll of each quarter to avoid interest and penalties. This matter will be referred to the Internal Revenue Service.

#### Officials' Response:

This has been corrected. The Fiscal Officer has also learned how to file manually if needed. The Fiscal Officer did not receive notice that the IRS changed their remittance schedule from quarterly to monthly.

### FINDING NUMBER 2020-014

#### Noncompliance Citation – Fiscal Officer Training and Exemption

**Ohio Rev. Code § 135.22(B)** states that to enhance the background and working knowledge of treasurers in investments, cash management, and ethics, the treasurer of state shall provide annual continuing education programs for treasurers. A treasurer annually shall complete the continuing education programs described, unless the treasurer annually provides a notice of exemption.

**Ohio Rev. Code § 733.27(B)** states that "the village clerk shall attend training programs for new village clerks and annual training programs of continuing education for village clerks that are provided by the auditor of state pursuant to section 117.44 of the Revised Code."

The Fiscal Officer did not attend the annual continuing education programs provided by the Auditor of State or complete the annual exemption to the Auditor of State's office in fiscal year 2019 or 2020.

In order to maintain and/or enhance the working knowledge and prevent future occurrences of noncompliance, the Fiscal Officer shall attend the annual training or complete an annual exemption and submit to the Auditor of State's office.

#### Officials' Response:

This has been corrected. The Fiscal Officer attends annual training, as required, and attends various online training as time permits.

**FINDING NUMBER 2020-015**

**Noncompliance Citation - Appropriations Exceeding Estimated Resources**

**Ohio Rev. Code § 5705.39** provides that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there-from, as certified by the county budget commission. No appropriation measure shall become effective until the county auditor files a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate. For purposes of this section of the Ohio Revised Code, estimated revenue is commonly referred to as “estimated resources” because it includes unencumbered fund balances.

At December 31, 2020 and December 31, 2019, the Village's appropriations exceeded the amount certified as available by the budget commission in the following funds:

<u>Year / Fund</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Variance</u>
2020 Street Construction, Maintenance and Repair Fund	\$196,308	\$50,844	\$145,464
2020 Swimming Pool Fund	\$37,185	\$30,667	\$6,518
2020 Garbage Fund	\$130,000	\$28,569	\$101,431
2019 Street Construction, Maintenance and Repair Fund	\$181,427	\$164,638	\$16,789
2019 Police Enforcement Fund	\$97,490	\$11,515	\$85,975
2019 Capital Projects Fund	\$795,100	\$766,986	\$28,114
2019 Swimming Pool Fund	\$35,285	\$365	\$34,920

Failure to limit appropriations to the amount certified by the budget commission due to deficiencies in the Village's compliance monitoring policies and procedures could result in overspending and negative cash fund balances.

The Village should draft, approve, and implement procedures to compare appropriations to estimated resources and, if adequate resources are available for additional appropriations, the Village should submit an amended certificate of estimated resources to the budget commission for certification. If the resources are not available to cover the appropriations, an amendment to the appropriation resolution should be passed by Council to reduce the appropriations.

**Officials' Response:**

This has been corrected. The Fiscal Officer received training on how to properly submit information to the Allen County Auditor when increasing appropriations, as well as request an amended certificate, and estimate a conservative letter for the resources.

**FINDING NUMBER 2020-016**

**Noncompliance Citation - Prior Certification**

**Ohio Rev. Code § 5705.41(D)(1)** provides that no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

**FINDING NUMBER 2020-016**  
**(Continued)**

There are several exceptions to the standard requirement stated above that treasurer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Rev. Code.

A. "Then and Now" Certificate - If the chief fiscal officer can certify that both at the time the contract or order was made ("then") and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without resolution or ordinance upon completion of the "then and now" certificate provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

B. Blanket Certificate - Fiscal Officer may prepare "blanket" certificates for a certain sum of money not to excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriations.

C. Super Blanket Certificate - The Village may also make expenditures and contract for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, roadway materials, utilities, and any other specific recurring and reasonably predictable operating expense. This certificate may, but need not, be limited to a specific vendor. This certificate is note to extend beyond the current fiscal year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

In 2020 and 2019, the Village did not properly certify the availability of funds prior to the purchase commitment for all purchases due to deficit fund balances and there was no evidence the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to help ensure purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, the Fiscal Officer should certify the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used. The Village should also implement procedures to ensure expenditures do not exceed available resources, thus avoiding negative fund balance situations and enabling the Village to properly certify the availability of funds for purchases.

**Officials' Response:**

This has been corrected. The Fiscal Officer, per LGS, now uses blanket purchase orders and will monitor appropriations to ensure we do not exceed expenditures, and will increase appropriations when necessary.

#### FINDING NUMBER 2020-017

##### Noncompliance Citation - Timely Filing of Financial Statements

**Ohio Rev. Code § 117.38(A)** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. **Ohio Rev. Code § 117.38(B)** states, in part, that the report shall be certified by the proper officer or board and filed with the auditor of state within sixty days after the close of the fiscal year.

The Village failed to file the annual financial report for 2019 by the required due date of March 2, 2020. The Village did not file the 2019 annual financial report until December 17, 2020. Pursuant to Ohio Rev. Code § 117.38 the Village may be fined and subject to various other administrative remedies for its failure to file the required financial report timely.

The Village should ensure that the annual financial report is filed in the Hinkle System by the required due date each year to avoid being in non-compliance with Ohio Rev. Code § 117.38 requirements and to provide for timely information to its users.

##### Officials' Response:

This has been corrected. LGS filed the reports during the last two audit cycles. The Fiscal Officer filed in the Hinkle System following calendar year 2021.

#### FINDING NUMBER 2020-018

##### Noncompliance Citation - Ohio Police and Fire Withholdings and Remittances

**Ohio Rev. Code § 742.31(A)** states, in part, that each employee shall contribute an amount equal to a percentage of the employee's salary to the Ohio police and fire pension fund in the amount of twelve and one-quarter per cent. **Ohio Rev. Code § 742.33(A)** states, in part, that each employer shall pay monthly, on such dates as the board of trustees of the Ohio police and fire pension fund requires, an amount known as 'police officer employers' contribution,' which shall be nineteen and one-half per cent of the salaries of the members of the police department of the employer. Additionally, **Ohio Rev. Code § 742.32(A)** states, in part, that the fiscal officer of each employer shall transmit monthly to the secretary of the board of trustees of the Ohio police and fire pension fund a report of employee deductions in such form as the board requires. The report shall show all deductions for the fund made pursuant to section 742.31 of the Revised Code and shall be accompanied by payments covering the total of such deductions. The report shall also include the name of each member for whom deductions were made and the portion of the payment attributed to that member. Separate payments shall be so transmitted for that portion of such deductions made from the salaries of members of the police department and for that portion of such deductions made from the salaries of members of the fire department. The report and payment are due the last day of the month following the last business day of the reporting period. **Ohio Rev. Code § 742.35** states, in part, each employer shall pay its police officer employers' contribution and firefighter employers' contribution in monthly payments as provided in sections 742.33 and 742.34 of the Revised Code. The employer shall make each payment not later than the last day of the month after the month for which the police officer or firefighter employee contributions were withheld. If an employer fails to make the payment installment by the date it is due, a penalty determined under section 742.352 of the Revised Code shall be assessed against the employer.

Due to the lack of monitoring procedures in place, withholdings for pension were not properly or timely remitted to the Ohio police and fire pension fund in 2020 for one month out of twelve and 2019 for one month out of twelve. The Village also incurred a pre-employment physical penalty. In addition, the amount remitted for 2019 did not agree to the withholdings and employer share calculated by UAN by 3%. Also, see Finding 2020-002 regarding a finding for recovery for late filing of pension amounts.

**FINDING NUMBER 2020-018**  
**(Continued)**

Failure to properly withhold and remit withholdings and contributions could result in errors and/or irregularities occurring and remaining undetected during the normal course of business and could subject the Village to penalties and interest charges. Procedures should be implemented to ensure that the Village properly withholds and remits employee withholdings and employer contributions timely to the Ohio police and fire pension fund as required by Ohio Revised Code. The Village Council should implement procedures to monitor these payments to ensure they are being made timely and for the proper amounts. This matter will be referred to the Ohio Police & Fire Pension Fund.

**Officials' Response:**

This has been corrected. The Fiscal Officer worked with UAN to have the form updated and corrected, so electronic filing could be performed. The Fiscal Officer was also trained on how to file these reports manually, if needed. Payments are submitted via ACH; therefore, late fees should not be incurred.

**FINDING NUMBER 2020-019**

**Noncompliance Citation - Issuance of 1099G's**

**26 CFR § 1.6050E-1(a)** states, in part, Section 6050E applies to any refund officer who, with respect to an individual, makes payments of refunds of local income taxes or allows credits or offsets with respect to such taxes aggregating \$10 or more for such individual in any calendar year. **26 CFR § 1.6050E-1(f)** states, in part, that the information required to be reported on Forms 1096 and 1099 includes the aggregate amount of refunds, credits, and offsets made or allowed during the calendar year with respect to the taxable year of the individual covered by the return; the name, address and taxpayer identification number of the individual with respect to whom such payment, credit, or offset was made or allowed; the taxable year covered by the return; and such other information as may be required by the forms. In addition, the nature of the tax is required to be indicated on the Form 1099 in any case where the refund, credit or offset is made or allowed with respect to a payment attributable to an income tax that applies exclusively to income from a trade or business and is not a tax of general application.

The Village paid income tax refunds of more than \$10 to taxpayers during 2020 and 2019, but did not issue a 1099G as required by the above section of code. The Village issued six refunds in 2020 and twelve in 2019. Failure to issue 1099G's results in the Internal Revenue Service not being provided accurate information on Village income tax refunds paid to taxpayers, which could result in the incorrect calculation of taxes due from an individual. This matter will be referred to the Internal Revenue Service.

The Village should implement procedures to monitor income tax refunds of more than \$10 and issue 1099G's to provide for proper tax reporting.

**Officials' Response:**

This has been corrected. The Fiscal Officer received training on how to identify who needs 1099G's. Income Tax refunds over \$10.00, will be issued a 1099, but, after calendar year 2022, this will not be an issue as the Village is transitioning to RITA, effective 1-1-2023.

#### **FINDING NUMBER 2020-020**

##### **Noncompliance Citation – Outstanding Checks**

**Ohio Rev. Code § 9.39** provides, in part, that all money received or collected by a public official under color of office and not otherwise paid out according to law shall be paid into the treasury of the public office with which he is connected to the credit of a trust fund and shall be retained there until claimed by its lawful owner. If not claimed within a period of five years, the money shall revert to the general fund of the public office.

In addition, Auditor of State Bulletin 91-11 addresses the accounting procedures to follow regarding outstanding, stale-dated warrants / checks issued by the governmental entity. According to the audit bulletin, when the warrant / check becomes stale-dated (90 days from the issue date) a memorandum pay-in should be made to the unclaimed monies fund. A transaction description on the cash journal and receipt ledger should include the warrant / check number, name of payee, and the transaction should be identified as being an unclaimed warrant / check. The original entry should not be reversed. At this time, the warrant / check should be removed from the list of outstanding warrants / checks. If the rightful owner claims the unpaid money, a warrant / check would be paid from the unclaimed monies fund. If the liability remains unclaimed for a period of five years from the date the money was placed in the unclaimed monies fund, the money shall then be paid to the General Fund. If, after the five year period, the rightful owner claims the unpaid money, a warrant / check would be paid from the General Fund. Additionally, it is recommended that warrants / checks be printed with the statement "Void After 90 Days".

As of December 31, 2020, the Village had checks outstanding longer than 90 days in the amount of \$118. Failure to properly move long outstanding checks to the unclaimed fund, could result in future non-compliance and inaccurate bank reconciliations.

The Village should implement procedures to ensure that long outstanding checks are properly moved to an unclaimed fund.

##### **Official's Response:**

This has been corrected. The Fiscal Officer has received training on how to move outstanding checks to an unclaimed fund. The Fiscal Officer will also have language printed on the checks that states "void after 90 days".

#### **FINDING NUMBER 2020-021**

##### **Internal Control Deficiency - Posting of Approved Budgetary Appropriations and Estimated Receipts**

Sound accounting practices require accurately posting estimated receipts and appropriations to the ledgers to provide information for budget versus actual comparison and to allow the Council to make informed decisions regarding budgetary matters.

The Appropriation resolution and subsequent amendments establish the legal spending authority of the Village and the appropriation ledger provides the process by which the Village controls spending, it is therefore necessary the amounts appropriated by the Council are precisely stated and accurately posted to the appropriation ledger.

The original certificate and amendments establish the amounts available for expenditures for the Village and the receipts ledger provides the process by which the Village controls what is available, it is therefore necessary the amounts estimated by the County Budget Commission are posted accurately to the receipts ledger.



**FINDING NUMBER 2020-021  
 (Continued)**

Variations existed between the appropriation resolutions to the amounts posted to the accounting system.

In 2020, the Village did not post any appropriations to the accounting system. This caused a variance in every line item.

The following variances occurred in 2019:

Fund	Amount per Appropriations Resolution and Approved Amendments	Amount posted to the accounting system (UAN)	Variance
General	\$501,300	\$545,130	\$43,830
Street Construction, Maintenance and Repair	\$181,427	\$186,427	\$5,000
Capital Projects	\$795,100	\$752,100	(\$43,000)
Water Operating	\$632,225	\$724,691	\$92,466
Sewer Operating	\$636,675	\$619,295	(\$17,380)
Income Tax	\$757,082	\$757,493	\$411

Variations existed between the Amended Certificates and the amounts posted to the accounting system.

In 2020 the Village did not post any estimated receipts to the accounting system. This caused a variance in every line item.

In 2019, the Sewer Operating Fund had \$608,842 as their approved Estimated Resources; however, the amount posted in UAN was \$631,460, a variance of \$22,618.

The Village did not have procedures in place to accurately post authorized budgetary measures to the accounting system. The appropriations and amendments thereof approved by Council were not properly posted to the accounting system. Additionally, the approved Certificate of Estimated Resources and amendments thereof were not posted to the accounting system.

Failure to accurately post the appropriations and estimated resources to the ledgers could result in overspending and negative cash balances. In addition, this could lead to inaccurate reporting of the budgetary information in the notes to the financial statements.

To effectively control the budgetary cycle and to maintain accountability over receipts and expenditures, the Village should post to the ledgers, on a timely basis, estimated resources as certified by the budget commission and appropriations approved by the Council. The Village should then monitor budget versus actual reports to help ensure amended certificates of resources and appropriations have been properly posted to the ledgers.

**Officials' Response:**

This has been corrected. This was during the LGS restructuring and the Fiscal Officer now knows to get amended certificates to the Allen County Auditor and enter the data into the UAN system. The Village's Administration reviews appropriations on a regular basis and addresses issues immediately.

#### **FINDING NUMBER 2020-022**

##### **Internal Control Deficiency – Mayor’s Court Bank Reconciliation**

The Village established a separate bank account for Mayor's Court activity; however, a monthly bank reconciliation was not performed during the audit period. A monthly statement of activity was prepared by the Court Clerk indicating revenues and expenditures for each month; however, this statement was not reconciled to the bank account or the financial records and there was no indication that anyone reviewed the activity presented.

The lack of performing monthly bank reconciliations and reviewing activity could result in errors or irregularities going undetected during the course of business operations.

The Village should implement procedures to reconcile the Mayor's Court bank account monthly. The reconciliations and monthly activity statements should be reviewed by the Mayor and this review should be documented.

##### **Officials’ Response:**

This has been corrected. Current Mayor states that the previous Mayor informed him that court fines were recorded and deposited in the bank and reconciled annually.

#### **FINDING NUMBER 2020-023**

##### **Internal Control Deficiency – Income Tax Department Lack of Segregation of Duties**

The Fiscal Officer / Income Tax Administrator had the ability to perform the following duties:

- Receive mail and over the counter money and process it through the cash register;
- Prepare and make the daily deposits with the bank
- Post transactions in the Municipal Income Tax Solutions System and well as in Uniform Accounting Network
- Determine who receives a refund and pay out the refunds;
- Send delinquent notices; and
- Determine abatement of penalties and interest.

Allowing one individual to perform all of these functions did not provide for proper segregation of duties and could allow the manipulation of records and misappropriation of assets in the normal course of business without being detected.

The duties of opening mail, receiving and depositing tax payments, and reconciling should be segregated from the posting of the information to the system, calculating refunds and sending delinquent notices. In addition, Village Council should develop a policy for independent review and approval of all adjustments to income tax accounts.

##### **Officials’ Response:**

This will be corrected as of 1-1-2023, as the Village is transitioning to RITA for our income tax collections.

#### **FINDING NUMBER 2020-024**

##### **Internal Control Deficiency - Segregation of Duties - Utilities**

The Utilities Clerk had the ability to perform the following duties:

- Receive over the counter money and process it through the cash register;
- Open mail and process the money through the cash register;
- Prepare and make the daily deposits with the bank;
- Post transactions in the Intedata System;
- Determine adjustments and post to the system;
- Send delinquent notices; and
- Determine abatement of penalties and interest.

Allowing one individual to perform all of these functions, without supervisory reviews, did not provide for proper segregation of duties and could allow the manipulation of records and misappropriation of assets in the normal course of business to occur without being detected. Additionally, lack of supporting documentation or supervisory approval of account adjustments increases the risk that improper adjustments may be used to divert receipts.

The duties of opening mail, receiving and depositing utility payments, and reconciling should be segregated from the posting of the information to the system, calculating adjustments and sending delinquent notices to ensure that no single person has control over all phases of the transaction. In a small operation such as a Village, it is not always possible to have enough staff to properly segregate duties. Understanding this, the Council should take a more active role in monitoring transactions, such as reviewing the work completed by others. In addition, Village Council should develop a policy or written procedures for independent reviews and approval of all adjustments to utility accounts.

##### **Officials' Response:**

As much as practically possible, this has been corrected. It is not practical to hire an assistant to work alongside the Village Utilities Clerk. Therefore, procedures are in place that require the Village Administrator (or authorized Village employee) to review the daily activity performed by the Utilities Clerk, and to approve all adjustments made to accounts.

#### **FINDING NUMBER 2020-025**

##### **Internal Control Deficiency - Income Tax Collection and Recording**

The Village levied a municipal tax of one and a half percent for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities, capital improvements, and to provide revenue to pay for police, fire and ambulance protection of the municipality. The tax was on salaries, wages, commissions, other compensation, and on net profits. Income tax collections were to be allocated between the Income Tax Fund, General Fund, and Capital Project Fund, and beginning in 2013, the Police Enforcement Fund began receiving a portion of income tax revenue as well. Income tax revenues accounted for 20% and 24% of the total revenue for the years ended December 31, 2020 and 2019, respectively.

The Village did not maintain all income tax returns received by the Village:

- A total of 7% of the income tax revenues in 2020 did not have support maintained and a total of 2% of the income tax revenues in 2019 did not have support maintained.
- A total of 2% of the income tax revenues in 2020 and a total of 2% of the income tax revenues in 2020 were not recorded in MITs.

**FINDING NUMBER 2020-025  
(Continued)**

- A total of 2% of the income tax batches in 2019 did not agree to the amount deposited, with a total deficit in amounts indicated as collected vs deposited of \$53
- A total of three of the thirty-one returns tested for 2019 did not pay the correct tax rate.
- A total of five out of 26 returns tested for 2020 and five out of thirty one returns tested for 2019, the information per the tax documents did not agree to the income tax system.

The failure to maintain complete and accurate income tax forms and accounting system reports could lead to a loss of revenue for the Village as well as the inability to detect errors and omissions promptly.

The Fiscal Officer/Income Tax Administrator should review the adopted ordinances related to the 1.5% income tax and the municipal income tax rules and regulations and the contents within. Furthermore, the Village should develop and implement procedures to verify that all the income tax ordinances are followed, and that all required income tax returns are filed. This might include matching applicable street names or area codes from other computer files (such as IRS or State files), making periodic inquiry to major local employers for lists of employees, obtaining notices of utility hookups for new residents, etc.

**Officials' Response:**

This will be corrected as of 1-1-2023, as the Village is transitioning to RITA for our income tax collections.

**FINDING NUMBER 2020-026**

**Internal Control Deficiency – Lack of Supporting Documentation**

Maintaining organized documentation and support for financial transactions is essential in assuring the Village financial statements are not materially misstated and that all disbursements are made for a proper public purpose.

The Village did not maintain documentation and support for the May 8, 2020 receipt from Charter for Franchise Fees in the amount of \$3,541. In addition, the Village did not establish a contract or maintain underlying documentation and support for payments made to Jason Flowers for legal services of \$11,000 per year in 2020 and 2019.

Failure to maintain underlying documentation and support of financial transactions can increase the risk of fraud, result in financial statement misstatements, and expenditures that are not for a proper public purpose.

The Village should establish a contract or maintain invoices for all financial transactions and records should be maintained in an orderly manner to support all transactions.

**Officials' Response:**

This is in the process of being corrected. The Fiscal Officer maintains all supporting documentation with all transactions. Some reconciliations have had to be unposted, due to corrections being needed in the appropriations. Effective 1-1-2023, the Fiscal Officer will have more time to dedicate to these activities, due to the Village transitioning to RITA for income tax collections, as the Fiscal Officer is also our Income Tax Administrator.

**FINDING NUMBER 2020-027**

**Internal Control Deficiency – Leave Accrual**

The Village has established policies for the accrual of sick leave. Per section 4, policy 4-05, full time employees accrue sick leave at a rate of 15 days or a total of 120 hours per calendar year. The Village did not have procedures in place to properly record leave accrual amounts. As a result, a tested employee was credited with only 100 hours in 2019 and 110 hours in 2020.

These errors had no financial effect on the Village during the audit period as the employees did not take more than what should have been accumulated or available from prior balances remaining. These errors have not been corrected.

By not properly recording leave accrual amounts, employees may not be compensated for leave time to which they are entitled. The Village should implement policies and procedures for the proper recording of accumulation and use of sick and vacation leave.

**Officials' Response:**

This has been corrected. The Fiscal Officer has a calendar reminder as to when leave accrual is supposed to be added for all employees. It is recorded on the 1st of the month for the prior month worked.

**FINDING NUMBER 2020-028**

**Internal Control Deficiency - General Account Bank Reconciliation and Financial Reporting Monitoring**

Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records. All public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices. In addition, the Council should monitor the monthly activity of the Village through the review and approval of monthly financial reports.

The reconciliation of cash (bank) balances to accounting system records (book) to the accounting system is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection. Monitoring of financial information is also a valuable tool for ensuring the accuracy and completeness of the Village's accounting records. The Fiscal Officer is responsible for reconciling the book (fund) balance to the total bank balance on a monthly basis, and the Council and/or other administrators are responsible for reviewing the reconciliations and related support including monthly financial reports.

Monthly bank to book reconciliations were not prepared or reviewed each month of 2020 or 2019. As a result, reconciliation difficulties for the Village occurred and the Auditor of State's Local Government Services reconstructed 2019 and 2020 bank and financial activity. In addition, the Village Council approved the payment of bills; however, Village Council did not perform monitoring of the posting of revenues, disbursements, and budgetary information through the approval of monthly financial activity reports.

Failure to reconcile monthly and to properly monitor and approve financial activity increases the possibility that the Village will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements. Further, the lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle and could lead to inaccurate reporting in the annual financial statements.

**FINDING NUMBER 2020-028  
(Continued)**

The Fiscal Officer should record all transactions and prepare monthly bank to book cash reconciliations, which include all bank accounts and all fund balances. Variances should be investigated, documented and corrected. In addition, the Council should review the monthly cash reconciliations including the related support (such as reconciling items) and implement procedures for the review and approval of monthly revenue and disbursement reports from the accounting system, and monthly budgetary reports showing budgeted amounts verses actual activity and document the reviews.

**Officials' Response:**

This has been corrected. During the audit years (2019 & 2020), the Fiscal Officer was instructed to not reconcile due to the restructuring of the Village's finances. The Fiscal Officer now reconciles and has been trained on how to figure outstanding amounts due to ACH payments, etc.

**FINDING NUMBER 2020-029**

**Noncompliance and Internal Control Deficiency – Accuracy of Financial Reporting**

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

**Ohio Rev. Code § 733.28** requires that the Village Fiscal Officer shall keep the books of the Village, exhibit accurate statements of all moneys received and expended, of all the property owned by the Village and the income derived there from, and of all taxes and assessments. Additionally, **Ohio Admin. Code § 117-2-02(A)**, states, in part, that all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report the transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Village did not properly classify various receipt and disbursement transactions due to lack of proper procedures in place for recording activity and the lack of proper reviewing and monitoring procedures of financial information. The following errors were noted on the Village's annual reports:

December 31, 2019:

- The Village improperly recorded the wages of the Utility Supervisor as a Street Construction Maintenance and Repair Fund expenditure in the amount of \$41,944, instead of properly allocating \$6,292 to the General Fund, \$10,486 to the Street Construction Maintenance and Repair Fund, \$12,583 to the Sewer Fund and \$12,583 to the Water Fund.
- The Village incorrectly classified OWDA 8588 loan for the construction of a new well in the Governmental Capital Projects Fund. The Village posted loan proceeds in the amount of \$201,186 and Intergovernmental receipts in the amount of \$84,843 to the Governmental Capital Projects Fund and Principal Retirement disbursements in the amount of \$84,843 and Capital Outlay disbursements in the amount of \$209,028 to the Governmental Capital Projects Fund. These amounts should have been posted to an Enterprise Capital Projects Fund.

**FINDING NUMBER 2020-029**  
**(Continued)**

December 31, 2020:

- The Village incorrectly classified OWDA 8588 loan for the construction of a new well in the Governmental Capital Projects Fund. The Village posted Loan Proceeds in the amount of \$365,612, Miscellaneous receipts in the amount of \$4,000 and Intergovernmental receipts in the amount of \$151,760 to the Governmental Capital Projects Fund and Principal Retirement disbursements in the amount of \$157,906 and Capital Outlay disbursements in the amount of \$373,412 to the Governmental Capital Projects Fund. These amounts should have been posted to an Enterprise Capital Projects Fund.
- The Village did not properly include Fines, Licenses and Permits for Distribution that were received by the Mayor's Court in 2020. A total of \$921 should have been posted in the Custodial funds.

In addition, in 2019 and 2020 the Village's budgetary note disclosure did not include encumbrances due to lack of accuracy in preparing their notes to the financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 54 (GASB Codification 1800.168-1800.177) - *Fund Balance Reporting and Governmental Fund Type Definitions* gives definitions for each of the following fund types General, Special Revenue, Capital Project, Debt Service, and Permanent. GASB Statement No. 54 also establishes fund balance classifications that stipulate use of fund balances based on the extent to which a government is required to observe constraints imposed upon the use of the resources reported in governmental funds and for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority. In 2019, the Village failed to properly classify fund balances in accordance with GASB 54.

The financial statements and Village's books have been adjusted accordingly. In addition to the adjustments listed above, we also identified additional misstatements ranging from \$227 to \$4,311 that we brought to the Village's attention but are not adjusted on the financial statements.

Financial statement reporting errors inhibit the users' understanding of the financial position at fiscal yearend and the activity during the year. Procedures and controls should be in place to help prevent and detect errors and provide meaningful information to the users of the Village's financial statements. Prior to submitting the annual compilation to the Auditor of State, the Village's Fiscal Officer should review the compilation to identify and correct reporting errors. Resources such as those found on the Auditor of State web site, including the Village Handbook and others pertaining to financial reporting should be utilized when recording financial transactions and reviewing the annual financial statements.

**Officials' Response:**

This has been corrected. The Fiscal Officer was provided a cheat sheet from LGS on how to properly code the appropriations. LGS went through payroll to determine the percentages of payroll wages per fund. The Fiscal Officer, Village Administrator, Police Chief and Finance Committee, now meet on a regular basis to review appropriations.

**FINDING NUMBER 2020-030**

**Internal Control Deficiency – Disaster Recovery Plan for Accounting Activity**

A disaster recovery plan, which identifies the procedure to perform in the event of a disaster, should be maintained to minimize disruption to computer services. Disaster recovery plans identify arrangements for alternative data processing on compatible hardware and software. A proper plan removes as much time-consuming decision making as possible from the period immediately following the disaster.

**FINDING NUMBER 2020-030**  
**(Continued)**

The Village does have a disaster recovery plan but it does not include the procedures to be used for the continuation of recording and monitoring financial activity during a disaster. Without documented business recovery procedures, critical resources and processing may not be restored in a timely and efficient manner. As a result, substantial costs could be incurred attempting to retrieve and recreate pertinent financial information for internal and external purposes.

An elaborate plan is not necessary; however, additional tasks should be performed to help provide for an efficient recovery if a disaster occurs. A disaster recovery plan should be developed to include:

- recovery terms and definitions;
- technical (hardware/software) recovery procedures;
- end user recovery procedures;
- readiness plan;
- emergency contact list;
- reciprocal agreement with compatible site(s)

The lack of a disaster recovery plan to include accounting and relating activity procedures could result in data being lost and the Village not being able to operate and deliver uninterrupted service in the event of an actual disaster.

The Village should develop and adopt a specific written disaster recovery plan that would include accounting procedures. Once developed, the plan should be tested to ensure that it will meet the needs of the Village in the event of an actual disaster. Additionally a copy of the plan and backups performed should be stored off-site.

**Officials' Response:**

This has not been corrected. The Village Administrator performed several hours of research on locating a template, which included searching online and contacting other municipalities, to no avail. In addition, the Fiscal Officer does have a laptop computer, so she is able to perform regular duties remotely, in the event a disaster strikes the Village's Town Hall.

**FINDING NUMBER 2020-031**

**Noncompliance – Sales Tax Paid**

**Ohio Rev. Code § 5739.02(B)(1)** states that sales tax does not apply to the sales to the state or any of its political subdivisions, or to any other state or its political subdivisions if the laws of that state exempt from taxation sales made to this state and its political subdivisions.

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically, the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only.

Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states, in part, the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

Sound internal controls over disbursement of funds is pertinent to ensure that disbursements are accurate, complete, in compliance with applicable laws and regulations, and issued for a proper public purpose. We noted instances where the Village paid sales tax on purchases totaling \$53 in 2020 and \$131 in 2019.



**FINDING NUMBER 2020-031  
(Continued)**

Payment of sales tax is not considered a proper public purpose. Failure to properly pay expenditures could result in future improper expenditure of funds.

The Village should implement proper procedures and controls to ensure sales taxes are not paid on purchases. The Village should take advantage of the Village's tax exempt status whenever possible.

**Official's Response:**

This has been corrected, as much as practically possible. We attempt to purchase from vendors where we have accounts only; however, on occasion, we may need to make a purchase from a vendor (or online) where we do not have an account, which may cause the Village to be subjected to sales tax.

**FINDING NUMBER 2020-032**

**Noncompliance – Negative Funds**

**Ohio Rev. Code § 5705.10(I)** requires that money paid into any fund shall be used only for the purposes for which such fund is established. Therefore, a negative fund cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance.

Throughout 2020 and 2019 various funds reflected deficit balances as a result of accounting errors. After a reconstruction of the accounting records, the following negative balances were noted:

December 31, 2019

- Fund 5501 Swimming Pool (\$24,197)

December 31, 2020

- Fund 5501 Swimming Pool (\$25,651)

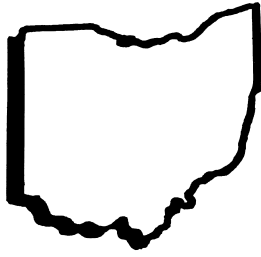
Negative fund balances could result in the use of restricted receipts for unallowable purposes. A procedure and control, such as the Management and/or Board's periodic review of reports that show cash fund balances, and budgeted versus actual receipts and disbursements, should be implemented to identify those funds that may potentially develop a negative balance.

Advances or transfers should be made for these funds or appropriations modified to prevent a negative cash balance. The Village should refer to Ohio Compliance Supplement (OCS) Chapter 1 and/or Auditor of State Bulletin 97-003 for information regarding the accounting treatment and approval process for advances.

**Official's Response:**

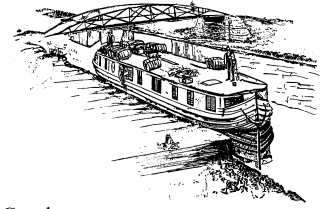
This has been corrected. This occurred during the LGS restructuring and the Fiscal Officer has received training on the proper reporting. Legislation is passed when appropriations need to be increased and receipts from Income Tax are deposited into the required funds per receipt, rather than monthly.

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# Village of Spencerville

116 South Broadway  
 Spencerville, Ohio 45887-1267  
 Phone (419) 647-6263  
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On the Banks of the Miami-Erie Canal

## SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2020 AND 2019

Finding Number	Finding Summary	Fully Corrected?	Additional Information
2018-001	Internal Control Deficiency / Noncompliance Citation / Finding for Recovery - Late Fees and Sales Tax	Not Corrected	Repeated in 2020-002
2018-002	Internal Control Deficiency / Noncompliance Citation / Finding for Recovery – Overpayment of Payroll Wages	Not Corrected	Repeated in 2020-001
2018-003	Internal Control Deficiency / Finding for Recovery Repaid under Audit - Overpayment of Wright Refuse Services	Fully Corrected	The owner of the former business Wright Refuse, made proper restitution to the Village.
2018-004	Noncompliance Citation - Required Annual Training	Not Corrected	Repeated in 2020-014
2018-005	Noncompliance Citation - Fraud Reporting System	Fully Corrected	
2018-006	Noncompliance Citation - Issuance of 1099's	Not Corrected	Repeated in 2020-009
2018-007	Noncompliance Citation – Issuance of 1099Gs	Not Corrected	Repeated in 2020-019
2018-008	Noncompliance Citation – Purpose of Executive Sessions	Not Corrected	Repeated in 2020-003
2018-009	Noncompliance Citation – Public Records and Training	Partially Corrected	Repeated in 2020-006
2018-010	Noncompliance Citation – Ohio Pooled Collateral System	Not Corrected	Repeated in 2020-005

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2020 AND 2019  
(Continued)**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2018-011	Noncompliance Citation – Maintenance of Public Records	Fully Corrected	
2018-012	Noncompliance Citation – Outstanding Checks	Partially Corrected	Repeated in 2020-020
2018-013	Noncompliance Citation – Purchase of Gift Cards and Supporting Documentation	Fully Corrected	
2018-014	Noncompliance Citation – Certificate of Estimated Revenue / Appropriations Exceeding Estimated Resources	Not Corrected	Repeated in 2020-015
2018-015	Noncompliance Citation – Expenditures in Excess of Appropriations	Not Corrected	Repeated in 2020-011
2018-016	Noncompliance Citation – Ohio Police and Fire Withholding and Remittances	Not Corrected	Repeated in 2020-018
2018-017	Noncompliance Citation – Ohio Public Employees Retirement System Withholding and Remittances	Not Corrected	Repeated in 2020-008
2018-018	Noncompliance Citation – Remittance of Federal Withholdings	Not Corrected	Repeated in 2020-013
2018-019	Noncompliance Citation – Prior Certification of Funds and Negative Fund Balances	Not Corrected	Repeated in 2020-016 and 2020-032
2018-020	Noncompliance Citation – Timely Filing of the Financial Statements	Not Corrected	Repeated in 2020-017
2018-021	Noncompliance Citation – Use of a Debit Card	Partially Corrected	Repeated in 2020-007
2018-022	Internal Control Deficiency - General Account Bank Reconciliation and Financial Report Monitoring	Not Corrected	Repeated in 2020-028
2018-023	Internal Control Deficiency - Income Tax Collections and Recording	Not Corrected	Repeated in 2020-025
2018-024	Internal Control Deficiency - Segregation of Duties - Utilities	Not Corrected	Repeated in 2020-024
2018-025	Internal Control Deficiency – Leave Accruals	Not Corrected	Repeated in 2020-027

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2020 AND 2019  
(Continued)**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2018-026	Internal Control Deficiency – Mayor's Court Reconciliation and Remittances	Not Corrected	Repeated in 2020-022
2018-027	Internal Control Deficiency - Use of Cashier's Checks	Fully Corrected	
2018-028	Internal Control Deficiency - Posting of Approved Budgetary Appropriations and Estimated Receipts	Not Corrected	Repeated in 2020-021
2018-029	Internal Control Deficiency - Establishment of Pay for Mayor and Council Members	Fully Corrected	
2018-030	Internal Control Deficiency / Noncompliance Citation - Accuracy of Financial Statement Reporting	Not Corrected	Repeated in 2020-029
2018-031	Internal Control Deficiency - Pool and Concession Receipts	Fully Corrected	
2018-032	Internal Control Deficiency – Disaster Recovery Plan for Accounting Activity	Not Corrected	Repeated in 2020-030
2018-033	Internal Control Deficiency – Income Tax Department Omissions in Recording Transactions	Not Corrected	Repeated in 2020-025
2018-034	Internal Control Deficiency – Income Tax Department Lack of Segregation of Duties	Not Corrected	Repeated in 2020-023

# OHIO AUDITOR OF STATE KEITH FABER



**VILLAGE OF SPENCERVILLE**

**ALLEN COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

This is a true and correct copy of the report, which is required to be filed pursuant to Section 117.26, Revised Code, and which is filed in the Office of the Ohio Auditor of State in Columbus, Ohio.



**Certified for Release 11/10/2022**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)